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28 March 1985

MEMORANDUM FOR: See Distribution

VIA: Acting Chief, Liaison Division *100-13*

FROM:
Liaison Division

SUBJECT: Congressional Plans for Federal
Civilian Retirement

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1. There are mixed views on Capitol Hill regarding whether Congress will enact a supplemental retirement system for employees hired on and after 1 January 1984. The opinions are also mixed with respect to what Congress would do in the event that a supplemental package is not approved before the stopgap law expires at the end of this year.

FEDERAL EMPLOYEE GROUPS' POSITIONS ON SUPPLEMENTAL RETIREMENT

2. The National League of Postmasters is lobbying for repeal of Social Security coverage for new employees and opposes the implementation of a three-tier system, such as the plan proposed by Senator Stevens. (As reported earlier, House Post Office/Civil Service staffers also prefer the three-tier concept). The Postal League argues that any alternative to the existing Civil Service system would be much more costly and a nightmare to administer. Other Federal employee groups are seeking to retain the status quo for all Civil Service employees, and to get parity for the new employees. These reactions augur against Congressional approval of a supplemental retirement system this year. As reported, Senator Stevens will not move until he is convinced that he has the support of these groups; it is highly doubtful that Congressman Ford (D-MI), Chairman of the House Post Office/Civil Service Committee, would want to move forward without the backing of Federal employee groups. His Committee's hearings on retirement design issues to be held April 2, 3, and 23 will be revealing as to Federal employee group positions.

3. In addition, it appears that Federal groups think that they will stand a better chance of getting an attractive supplemental retirement plan next year when they can more easily influence legislators, given the fact that it is an election year. These groups also hope that the Federal deficit will be less of an issue next year.

WILL CONGRESS APPROVE A SUPPLEMENTAL SYSTEM THIS YEAR?

4. House Budget Committee staffers do not believe that a supplemental retirement plan will be approved by Congress this year. This prediction is more "gut feeling" than informed, and it is based on the experience of dealing with controversial and complex legislation. They reflect the feeling of some House members and employee groups that the current climate of fear over the Federal deficit is no time to push for a new Federal retirement system. At the same time, these Staffers believe that it may be even tougher next year given the number of legislators who will be up for re-election. Furthermore, they expect that the supplemental plan that Congress eventually will approve will look very much like the current Civil Service system in the design. For example, they are hearing opposition to the deferred tax thrift plan concept and believe that this design will be very difficult to get through Congress.

5. The House Post Office/Civil Service staffers want to keep consideration of supplemental retirement separate from the 1986 budget deliberations. Several members of this Committee say that they are more concerned with producing a fair supplemental plan for new employees than with meeting the year-end deadline. They believe, however, that the climate for moving legislation is better this year than it will be next. They say that while legislators with large numbers of Federal constituents will be eager to demonstrate support for a generous retirement system, many other legislators will be pressured by constituents who feel Federal pensions are too generous.

6. Senator Stevens states that he will not allow Senate consideration of a supplemental retirement bill in an election year, and that it must happen this year or not at all. Observers suggest that the Senator is attempting to draw support for his plan and that his threat will not be carried out.

IF A SUPPLEMENTAL PLAN IS NOT ENACTED

7. Unless Congress acts by 31 December 1985, the stopgap law will expire and new employees will have at least 14 percent salary deducted for Social Security and Civil Service. Currently, these employees pay 1.3 percent into Civil Service and the rest comes out of a general fund.

8. Senator Stevens continues to state that he will block any effort to extend the temporary law, a position he would likely change if pressured by his own constituents. House Budget Committee staffers say that Congress will very likely extend the law for an additional year. The House

Civil Service Committee does not yet have a position on the issue. Some House staffers say that even if the law expires and Congress does not act, the problem could be corrected retroactively. Both Senate and House staffers are very aware of the hardship that a 14 percent deduction would cause, particularly at the lower income levels.

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